

April 25, 2017

eXp World Holdings, Inc. (OTCQB: EXPI): Record 2016 / Raising Fair Value

Sector/Industry: Real Estate / Brokerage

expworldholdings.com

Market Data (as of April 25, 2017)

Current Price	US\$3.65
Fair Value	US\$7.43
Rating*	BUY
Risk*	4
52 Week Range	US\$1.60 - US\$5.84
Shares O/S	52.37 mm
Market Cap	US\$191.16 mm
Current Yield	N/A
P/E (forward)	N/A
P/B	N/A
YoY Return	104.4%
YoY OTCQX	13.5%

*See back of report for rating and risk definitions

* All of the figures are in US\$ unless otherwise specified.



Highlights

- eXp World Holdings, Inc.'s ("company", "eXp") agent count increased to 3,000 by March 2017, up from just 864 agents at the beginning of 2016.
- 2016 was another record year for the company as revenues hit \$54 million, up by 137% YoY.
- **We are raising our 2017 year-end agent count estimate from 4,500 to 5,500. We are also raising our 2017 revenue forecast from \$101 million to \$119 million.**
- Gross margins were lower than expected (13.8% in 2016) as the company incurred higher fees / commissions to attract new agents.
- Excluding stock based compensation, the company reported net profit of \$1.51 million (EPS: \$0.03) in 2016, versus \$0.21 million (EPS: \$0.00) in 2015.
- The balance sheet continues to be healthy with \$1.68 million in cash, \$1.99 million in working capital, and no debt.
- After hitting a record high of \$5.84 per share, eXp has been on a downward trend since October 2016. We do not think the decline reflects eXp's fundamentals, and believe that the recent softness offers investors an attractive entry point.
- **We are raising our fair value estimate from \$6.78 to \$7.43 per share.**

Key Financial Data

(in US\$); YE - Dec 31	2011	2012	2013	2014	2015	2016	2017E	2018E
Revenues	4,199,617	6,706,145	10,701,280	13,368,905	22,866,787	54,179,511	118,500,000	202,500,000
Gross Margin	18.7%	15.6%	16.8%	17.0%	14.9%	13.8%	12.0%	12.5%
EBITDA	23,109	(64,740)	(1,114,166)	47,925	(4,472,498)	(25,942,017)	(2,192,250)	506,250
Net Income	13,496	(75,492)	(1,118,861)	103,843	(4,581,449)	(26,013,473)	(2,407,612)	115,071
EPS (basic)	0.00	(0.00)	(0.00)	0.00	(0.09)	(0.51)	(0.05)	0.00
Debt to Capital	143.9%	-815.6%	81.0%	13.0%	0.0%	1.4%	1.0%	0.4%

**Agent count
crosses 3,000**

eXp's agent account reached 2,400 at the end of 2016, and increased to 3,000 by March 15, 2017. The growth rate continues to be approximately 200 new agents a month. At this rate, we expect the company could exit with approximately 5,500 agents by the end of 2017. As a result, we are raising our forecast from 4,500 to 5,500.

The following chart shows the growth rate since Q3-2013.



Financials

Revenues grew by 137% YoY to \$54.18 million and beat our forecast of \$53.46 million. **We are raising our revenue forecast for 2017 from \$101 million to \$119 million. We are introducing our 2018 revenue forecast in this report, which is \$203 million.**

	2017E	2018E
# of Agents (year-end)	5,500	8,000
Average Sales per Year / Agent	\$1,000,000	\$1,000,000
Annual Transactions (run rate based on YE agent count)	\$5,500,000,000	\$8,000,000,000
Total Transactions in the Year	\$3,950,000,000	\$6,750,000,000
Average Commission	3%	3%
Commission Revenues	\$118,500,000	\$202,500,000

Gross margins decreased YoY from 14.9% to 13.8% in 2016, and were lower than our 14.8% estimate. Cost of revenues includes costs related to sales agent commissions and revenue sharing. Margins decreased due to additional fees offered to new agents.

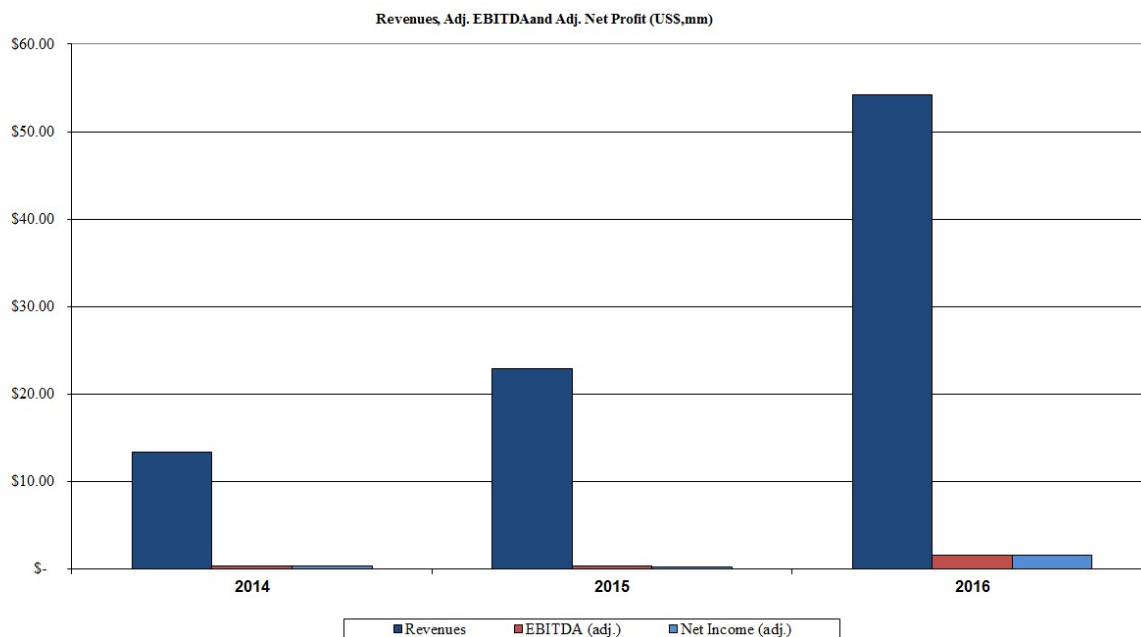
We are lowering our 2017 gross margin estimate from 14.5% to 12.0%.

Margins	2014	2015	2016
Gross	17.0%	14.9%	13.8%
EBITDA	0.4%	-19.6%	-47.9%
EBIT	0.3%	-19.7%	-48.0%
Net	0.8%	-20.0%	-48.0%
Net (adjusted)	2.5%	0.9%	2.8%

The company reported \$27.52 million of stock based compensation in the year versus \$4.79 million in 2015. Excluding stock based compensation, operating expenses were \$5.87 million (10.8% of revenues) in 2016, versus \$3.09 million (13.5% of revenues) in 2015. Our estimate was 10.6% of revenues.

Expense as a % of Revenues	2014	2015	2016
General and administrative	12.2%	10.7%	8.6%
Stock based compensation	1.7%	20.9%	50.8%
Professional fees	2.1%	1.9%	1.2%
Sales and marketing	0.6%	0.9%	1.1%
Total	16.6%	34.5%	61.6%

eXp reported a net loss of \$26.01 million (EPS: -\$0.51) in 2016 versus \$4.58 million (EPS: -\$0.09) in 2015. Excluding stock based compensation, the company would have reported net profit of \$1.51 million (EPS: \$0.03) versus \$0.21 million (EPS: \$0.00) in 2015.



Cash Flows

We are adjusting our 2017 net income forecasts from \$2.09 million (EPS: \$0.04) to -\$2.41 million (EPS: -\$0.05). Our 2018 forecast is \$0.12 million (EPS: \$0.00).

Free cash flows (“FCF”) were \$0.61 million in 2016 versus \$0.29 million in 2015.

Summary of Cash Flows			
(US\$, mm)	2014	2015	2016
Operating	\$0.24	\$0.35	\$1.02
Investing	-\$0.05	-\$0.06	-\$0.42
Financing	\$0.06	-\$0.06	\$0.49
Effects of Exchange Rate	-\$0.00	-\$0.01	\$0.01
Net	\$0.25	\$0.22	\$1.11
 Free Cash Flows to Firm (FCF)	 \$0.20	 \$0.29	 \$0.61

Balance Sheet

At the end of 2016, the company had \$1.68 million in cash. Working capital and the current ratio were \$1.99 million and 1.6x, respectively. The following table shows the company’s cash and liquidity position.

Liquidity & Capital Structure (US\$)	2014	2015	2016
Cash	353,374	571,814	1,684,608
Working Capital	259,077	482,311	1,988,621
Current Ratio	1.5	1.7	1.6
LT Debt	-	-	-
Total Debt	61,887	-	35,778
LT Debt / Capital	0.0%	0.0%	0.0%
Total Debt / Capital	13.0%	0.0%	1.4%
EBIT Interest Coverage (excl. stock comp)	282.9	258.9	4,118.9
 Accounts Receivables (days)	 4.1	 4.2	 11.3
Accounts Payable (days)	2.2	1.6	1.6
Cash Cycle	1.8	2.6	9.7

Stock Options and Warrants

As of December 31, 2016, there were 10.75 million options with a weighted average exercise price of \$0.67. All the options are in the money.

Valuation and Rating

Our revised Discounted Cash Flow (“DCF”) valuation is \$7.43 per share, up from our previous estimate of \$6.78 per share, as we raised our long-term projections. We have raised our long term agent count growth rate to hit 27,000 agents by 2022, up from our previous forecast of 25,000.

Risks

DCF Valuation (US\$)	2017E	2018E	2019E	2020E	2021E	2022E
Funds Flow from Operations	\$1,362,750	\$6,519,289	\$14,432,068	\$23,743,779	\$31,916,898	\$39,965,625
-increase in w/c	-\$1,334,808	-\$1,793,144	-\$1,643,317	-\$2,299,977	-\$2,555,530	-\$2,555,530
Cash Flows from Operations	\$27,942	\$4,726,145	\$12,788,751	\$21,443,802	\$29,361,368	\$37,410,095
-capex	-\$500,000	-\$500,000	-\$500,000	-\$500,000	-\$500,000	-\$500,000
Free Cash Flows	-\$472,058	\$4,226,145	\$12,288,751	\$20,943,802	\$28,861,368	\$36,910,095
Present Value	-\$438,894	\$3,565,550	\$9,408,239	\$14,550,387	\$18,195,096	\$21,115,482
Discount Rate	10.2%					
Terminal Growth	3%					
Present Value	\$452,226,044					
Cash - Debt	\$2,166,312					
Fair Value	\$454,392,356					
Shares O/S (treasury stock method)	61,168,285					
Value per share (US\$)	\$7.43					

The following risks may cause our estimates to differ from actual results (not exhaustive):

- The real estate brokerage industry is highly competitive.
- The company's ability to adapt to technological advancements will play a vital role in its long-term success.
- The company's profitability is highly dependent on the overall health of the real estate market.
- eXp is in a growth phase and has a relatively short track record. Long-term retention of agents has yet to be proven.
- As with any real estate brokerage, the company is also susceptible to negative changes to regulatory laws.

Appendix

STATEMENTS OF OPERATIONS					
(in US\$) - YE Dec 31st	2014	2015	2016	2017E	2018E
Net Revenues	13,368,905	22,866,787	54,179,511	118,500,000	202,500,000
COGS	11,099,750	19,456,409	46,726,533	104,280,000	177,187,500
Gross Profit	2,269,155	3,410,378	7,452,978	14,220,000	25,312,500
EXPENSES					
General and administrative	1,635,555	2,441,089	4,654,757	10,191,000	14,175,000
Stock based compensation	233,098	4,790,568	27,524,370	3,555,000	6,075,000
Professional fees	276,558	439,763	645,024	1,422,000	2,430,000
Sales and marketing	76,019	211,456	570,844	1,244,250	2,126,250
EBITDA	47,925	(4,472,498)	(25,942,017)	(2,192,250)	506,250
Amortization	14,493	26,304	58,374	215,362	329,217
EBIT	33,432	(4,498,802)	(26,000,391)	(2,407,612)	177,033
Other income	0	23	15.00	-	-
Interest expense	-942	-1,127	-370		
EBT	32,490	(4,499,906)	(26,000,746)	(2,407,612)	177,033
Taxes	-71,353	103,069	42,528	0	61,961
Net Profit (Loss)	103,843	(4,602,975)	(26,043,274)	(2,407,612)	115,071
EPS	0.00	-0.09	-0.51	-0.05	0.00
Non-controlling interests		21,526	29,801	-	-
Net Profit (Loss) to common shareholders	103,843	-4,581,449	-26,013,473	-2,407,612	115,071
EPS	0.00	-0.09	-0.51	-0.05	0.00

BALANCE SHEETS					
(in US\$) - YE Dec 31st	2014	2015	2016	2017E	2018E
ASSETS					
CURRENT					
Cash and cash equiv.	353,374	571,814	1,684,608	1,212,550	5,438,694
Restricted cash	141,508	148,613	481,704	481,704	481,704
A/R	189,026	341,643	3,015,767	3,437,533	5,874,266
Prepaid	74,673	84,451	383,563	412,305	704,572
Total Current Assets	758,581	1,146,521	5,565,642	5,544,093	12,499,237
Fixed assets	79,393	110,195	538,405	823,043	993,826
Deferred tax assets	75,196				
Total Assets	913,170	1,256,716	6,104,047	6,367,136	13,493,063
LIABILITIES					
CURRENT					
A/P	79,389	89,984	317,420	453,892	771,231
Customer deposits	141,508	148,613	481,704	481,704	481,704
Accrued expenses / interest	216,720	425,613	2,742,119	1,721,348	2,339,864
Notes payable	61,887		35,778	35,778	35,778
Due to related party					
Total Current Liabilities	499,504	664,210	3,577,021	2,692,722	3,628,577
Notes payable					
SHAREHOLDERS EQUITY					
Share capital	1,824,847	6,612,283	34,527,382	34,527,382	34,527,382
Accumulated deficit / comprehensive loss	-1,411,181	-6,000,201	-32,000,356	-30,852,968	-24,662,897
Non-controlling interests		-19,576		0	0
Total shareholders' equity (deficiency)	413,666	592,506	2,527,026	3,674,414	9,864,485
Total Liabilities and Shareholders Equity	913,170	1,256,716	6,104,047	6,367,136	13,493,063

STATEMENTS OF CASH FLOWS				
(in US\$) - YE Dec 31st	2015	2016	2017E	2018E
OPERATING ACTIVITIES				
Net profit for the year	-4,602,975	-26,043,274	-2,407,612	115,071
Adjusted for items not involving cash:				
Depreciation	26,304	58,374	215,362	329,217
Stock compensation / option expense	4,790,568	27,524,370	3,555,000	6,075,000
Deferred tax asset	75,196			
Funds From Operations	289,093	1,539,470	1,362,750	6,519,289
Change in working capital				
A/R	-152,617	-2,692,198	-421,766	-2,436,733
Prepaid	-9,778	-359,112	-28,742	-292,267
A/P	10,595	227,436	136,472	317,339
Accrued expenses	208,893	2,308,681	-1,020,771	618,516
Due to related parties				
NET CASH USED IN OPERATING ACTIVITIES	346,186	1,024,277	27,942	4,726,145
INVESTING ACTIVITIES				
PP&E	-57,116	-416,672	-500,000	-500,000
NET CASH USED IN INVESTING ACTIVITIES	-57,116	-416,672	-500,000	-500,000
FINANCING ACTIVITIES				
Equity	-1,182	457,920		
Debt	-61,877	35,778		
NET CASH FROM FINANCING ACTIVITIES	-63,059	493,698	0	0
Foreign Exchange / Others	-7,571	11,491		
INCREASE IN CASH FOR THE YEAR	218,440	1,112,794	-472,058	4,226,145
CASH, BEGINNING OF THE YEAR	353,374	571,814	1,684,608	1,212,550
CASH, END OF THE YEAR	571,814	1,684,608	1,212,550	5,438,694

Fundamental Research Corp. Equity Rating Scale:

Buy – Annual expected rate of return exceeds 12% or the expected return is commensurate with risk

Hold – Annual expected rate of return is between 5% and 12%

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Suspended or Rating N/A— Coverage and ratings suspended until more information can be obtained from the company regarding recent events.

Fundamental Research Corp. Risk Rating Scale:

1 (Low Risk) - The company operates in an industry where it has a strong position (for example a monopoly, high market share etc.) or operates in a regulated industry. The future outlook is stable or positive for the industry. The company generates positive free cash flow and has a history of profitability. The capital structure is conservative with little or no debt.

2 (Below Average Risk) - The company operates in an industry where the fundamentals and outlook are positive. The industry and company are relatively less sensitive to systematic risk than companies with a Risk Rating of 3. The company has a history of profitability and has demonstrated its ability to generate positive free cash flows (though current free cash flow may be negative due to capital investment). The company's capital structure is conservative with little to modest use of debt.

3 (Average Risk) - The company operates in an industry that has average sensitivity to systematic risk. The industry may be cyclical. Profits and cash flow are sensitive to economic factors although the company has demonstrated its ability to generate positive earnings and cash flow. Debt use is in line with industry averages, and coverage ratios are sufficient.

4 (Speculative) - The company has little or no history of generating earnings or cash flow. Debt use is higher. These companies may be in start-up mode or in a turnaround situation. These companies should be considered speculative.

5 (Highly Speculative) - The company has no history of generating earnings or cash flow. They may operate in a new industry with new, and unproven products. Products may be at the development stage, testing, or seeking regulatory approval. These companies may run into liquidity issues, and may rely on external funding. These stocks are considered highly speculative.

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